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Utility Appropriations

Second Quarter 1986

The Conference Board
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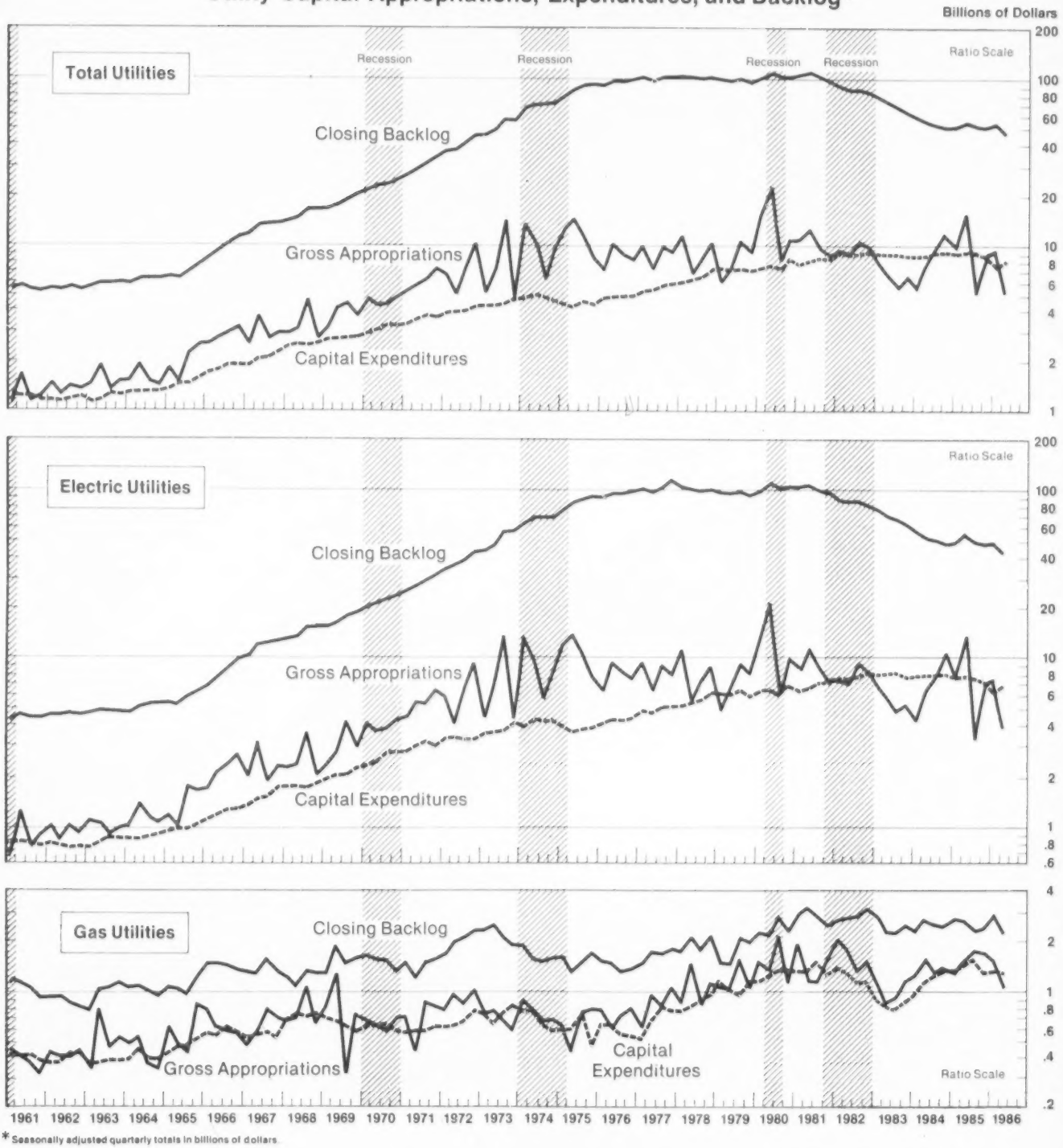
The Conference Board
70th Anniversary

Utility Capital Appropriations, Expenditures, and Backlog*



* Seasonally adjusted quarterly totals in billions of dollars.

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Second Quarter Utility Appropriation Developments

Highlights

- Capital Spending rebounds after three quarters of decline
- Capital Appropriations drop by 45 percent
- Backlog of unspent appropriations decreases by 14% to its lowest level in over a decade

Capital Expenditures Increase Moderately

After three consecutive quarterly declines, capital expenditures by the nation's investor-owned utilities increased 9% in the second quarter, to $8.08 billion. The increase was attributable solely to an 11% rise in the electric utilities sector, which accounts for nearly 85% of total utility outlays. Gas utility expenditures fell by 1.4%, remaining virtually unchanged at $1.28 billion. Total utility expenditures for the first half of 1986 are still running 16% below last year's first-half levels and 14% below the second quarter of 1985.

Capital Appropriations Fall Sharply

Despite the positive signal given by the increase in spending, capital appropriations for new plant and equipment plunged by 45% from their first-quarter level, to $5.01 billion. The cutback was sharpest in the electric utilities sector, where appropriations fell by 47%, to $3.98 billion. Gas utilities cut back their appropriations by 33%, to $1.04 billion, making this the third consecutive quarterly decline. Total utility appropriations are down 43% from the first half of 1985 and are running 67% below the same quarter a year ago.

Capital Spending: Weakness Ahead

The dramatic decrease in capital appropriations combined with the low level of the closing backlog point to declining spending in the utility sector during the remainder of this year and in early 1987. Spending by electric utilities is expected to be well below 1984-85 levels. The outlook for gas utilities is not quite as bleak. While spending by the gas sector is expected to decline slightly in 1986 relative to 1985, it should still be higher than the sector's 1984 expenditures.

Walter Arvin
October 20, 1986

CAPITAL APPROPRIATIONS AND EXPENDITURES OF INVESTOR-OWNED GAS AND ELECTRIC UTILITIES

Quarterly Totals in Millions of Dollars

	83-IV	84-I	84-II	84-III	84-IV	I-85r	II-85r	III-85r	IV-85r	I-86r	II-86p
					—SEASONALLY ADJUSTED—						
TOTAL UTILITIES											
Opening backlog	68,696	64,281	58,318	55,421	53,814	50,667	50,030	55,701	50,717	50,456	52,229
Appropriations	6,561	5,464	7,839	9,863	11,554	9,370	15,139	5,093	8,692	9,084	5,012
Canceled	2,300	2,545	1,720	2,258	5,364	-71	1,102	999	536	-114	4,096
Capital expenditure	8,676	8,882	9,016	9,212	9,337	9,078	9,366	9,078	8,417	7,425	8,076
Closing backlog	64,281	58,318	55,421	53,814	50,667	51,030	55,701	50,717	50,456	52,229	45,069
ELECTRIC UTILITIES											
Opening backlog	66,468	61,736	56,023	52,764	51,315	48,231	48,333	53,101	48,425	48,070	49,339
Appropriations	5,366	4,239	6,283	8,566	10,178	8,065	13,580	3,376	7,084	7,543	3,975
Canceled	2,300	2,055	1,621	2,071	5,248	231	852	479	267	142	3,651
Capital expenditure	7,798	7,897	7,921	7,944	8,014	7,732	7,960	7,573	7,172	6,132	6,801
Closing backlog	61,736	56,023	52,764	51,315	48,231	48,333	53,101	48,425	48,070	49,339	42,861
GAS UTILITIES											
Opening backlog	2,228	2,545	2,295	2,657	2,499	2,436	2,697	2,600	2,292	2,386	2,890
Appropriations	1,195	1,225	1,556	1,297	1,376	1,305	1,559	1,717	1,608	1,542	1,037
Canceled	0	490	99	187	116	-302	250	520	269	-256	445
Capital expenditure	878	985	1,095	1,268	1,323	1,346	1,406	1,505	1,245	1,293	1,275
Closing backlog	2,545	2,295	2,657	2,499	2,436	2,697	2,600	2,292	2,386	2,890	2,208
					—NOT SEASONALLY ADJUSTED—						
TOTAL UTILITIES											
Opening backlog	69,789	64,281	63,031	57,718	53,435	50,667	59,316	57,701	50,499	50,456	59,231
Appropriations	6,423	11,222	4,338	5,905	13,255	16,960	8,379	2,760	9,971	16,112	2,609
Canceled	2,821	4,587	422	683	6,195	460	541	595	964	119	1,292
Capital expenditure	9,110	7,885	9,229	9,505	9,828	7,851	9,453	9,367	9,050	7,218	8,089
Closing backlog	64,281	63,031	57,718	53,435	50,667	59,316	57,701	50,499	50,456	59,231	52,459
ELECTRIC UTILITIES											
Opening backlog	67,097	61,736	58,741	53,945	50,569	48,231	54,371	53,694	47,819	48,070	54,032
Appropriations	5,442	8,192	3,778	5,333	11,963	13,746	7,814	2,042	8,503	12,515	2,248
Canceled	2,742	3,998	349	568	6,080	656	306	154	713	257	855
Capital expenditure	8,061	7,189	8,225	8,141	8,221	6,950	8,185	7,763	7,539	6,296	6,893
Closing backlog	61,736	58,741	53,945	50,569	48,231	54,371	53,694	47,819	48,070	54,032	48,532
GAS UTILITIES											
Opening backlog	2,692	2,545	4,290	3,773	2,866	2,436	4,945	4,007	2,680	2,386	5,199
Appropriations	981	3,030	560	572	1,292	3,214	565	718	1,468	3,597	361
Canceled	79	589	73	115	115	-196	235	441	251	-138	437
Capital expenditure	1,049	696	1,004	1,364	1,607	901	1,268	1,604	1,511	922	1,196
Closing backlog	2,545	4,290	3,773	2,866	2,436	4,945	4,007	2,680	2,386	5,199	3,927

REVISIONS: Gas & total utilities data for I-1985 to I-1986 and electric utilities data for I-1986 are revised.

p denotes preliminary data.

Estimates are for all investor-owned gas and electric utilities. The electric utility companies surveyed account for 98% of all investor-owned companies' plant investment and kilowatt-hour sales to ultimate customers in 1984; the gas utilities surveyed account for 50% of 1984 revenues of all investor-owned gas utilities.

Historical data from 1958 available on request.

Sources: Edison Electric Institute; American Gas Association; The Conference Board.

ATTENTION PC USERS: All data in this publication plus extensive government statistics are available on cost-effective diskettes. For more information, contact Linette Waters at (212) 759-0900.

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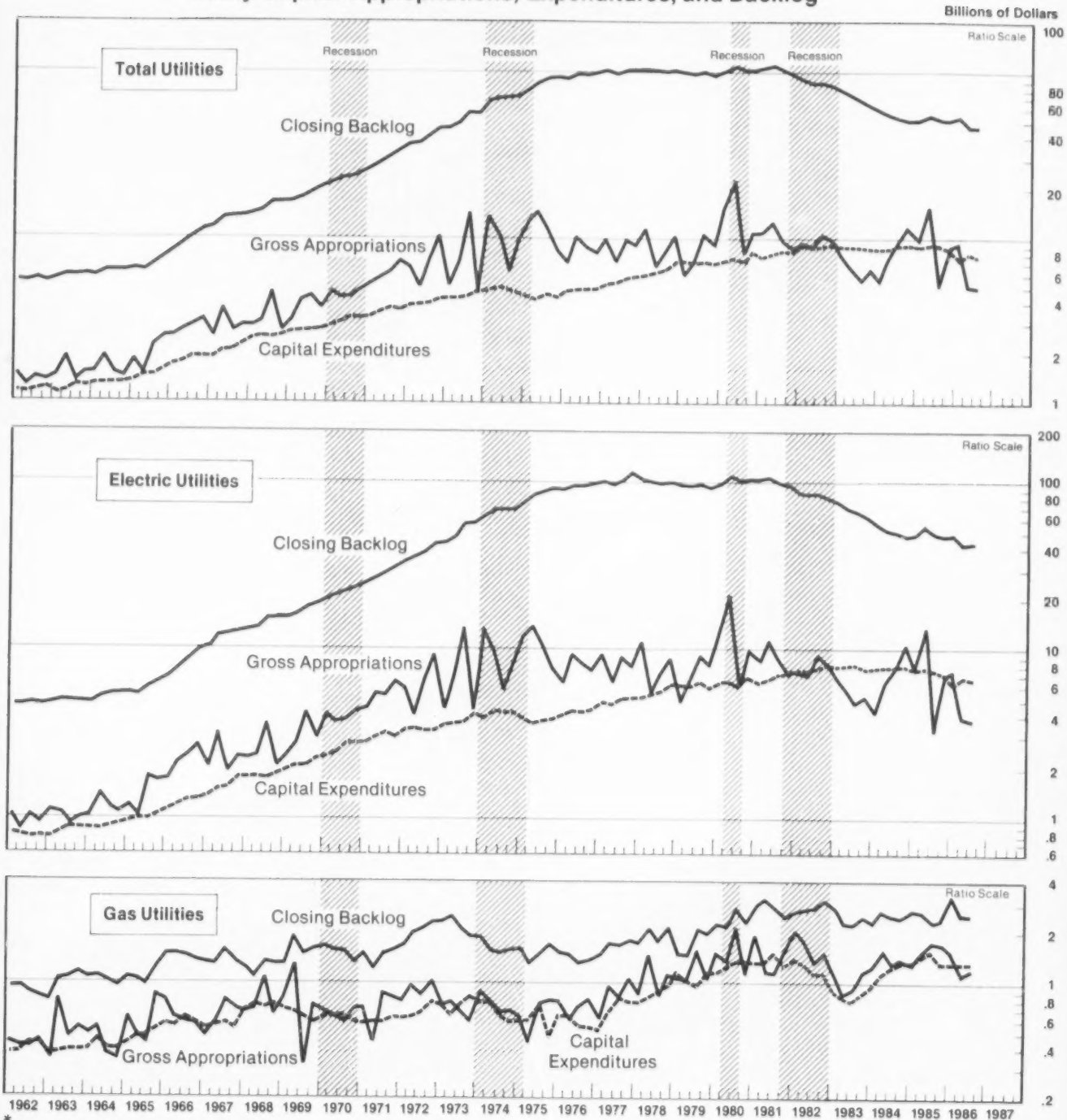
Third Quarter 1986

The Conference Board

Utility Capital Appropriations, Expenditures, and Backlog*



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Third Quarter 1986 Utility Appropriation Developments

Highlights

- Capital spending decreases.
- Capital appropriations decline modestly.
- Backlog of unspent appropriations down to lowest level since 1972.
- No increase in capital spending anticipated till end of the decade.

Investor owned gas and electric utilities decreased their capital expenditures in the third quarter of 1986, continuing its year-long downward trend. This was largely in response to widespread excess capacity and continuing pressures from both regulatory agencies and new competition.

Overall capital appropriations dropped slightly, reflecting a moderate weakening predicted for the outlook of the electric utility sector. However, the much smaller gas sector showed a substantial increase in its appropriations. The utility industry as a whole presents a relatively weak investment picture to 1990.

Sluggish demand, the increasing threat of competition from on-site generation (cogeneration and self-generation), and continued substantial excess capacity are the main factors cited for both the third-quarter declines and the pessimistic outlook.

Expenditures: Widespread Decline

Both the gas and electric utility sectors decreased their capital expenditures in the third quarter of 1986, to $7.84 billion, a 3.4% decline from the second quarter. For the first three quarters of 1986, total utility expenditures were 14.5% below the January-September 1985 level. Third quarter expenditures alone were 13.2% below the third quarter of 1985.

The electric utility sector, due to its size, tends to dominate overall utility expenditures and appropriations. In fact, since 1980 it has accounted for over 83% of total utility outlays. Therefore, much of the analysis of the utility industry focuses on that sector.

Slight Decline Brings Appropriations to Lowest Level Since Mid-Seventies

Third-quarter 1986 capital appropriations by the gas and electric utility sector were down slightly—to $5.04 billion from the $5.09 billion second-quarter figure—following the sharp 44% decline in the second quarter. The third-quarter decline can be attributed entirely to the electric utility sector, which decreased its appropriations by 3.9 percent.

The gas utility sector, on the other hand, increased its appropriations by 9.3%, reversing a nine-month slide. For the first three quarters of 1986, total utility appropriations were down 35.5% from the same period in 1985.

Spending Outlook; Weakness till 1990

Capital spending by the electric utility sector is not anticipated to increase till the early 1990s. This weakness in spending is due primarily to three factors: the increasing threat of new competition from on-site generation; sluggish projected increases in demand; and the continued existence of substantial excess capacity.

The results of the latest Conference Board survey of Utility Capital Appropriations supports this pessimistic prognosis. Electric utility appropriations for the first three quarters of 1986 were 39% below the same period in 1985, and the closing backlog of unspent appropriations declined in 5 of the last 6 quarters. With both of these leading indicators at or near 15 year lows, the outlook for future spending increases does not look promising.

Continuing Excess Capacity Dampens Capital Spending Plans

The electric utility sector, like many other sectors of the U.S. and world economies, is currently facing a large amount of excess capacity. According to the Federal Reserve, this industry's national average capacity utilization rate now stands at 80%—almost 8 percentage points below the 1967-85 average. However, these figures vary widely across regions and can change quickly with the bringing-on-line of a large power plant.

Since the 1973-74 rise in energy prices and the accompanying decrease in demand, the electric utility industry's excess capacity is estimated to be over 11 percent.

The North American Electric Reliability Council (NERC), an industry organization concerning itself with the future reliability of electricity supply, anticipates capacity increases of only 1% per year, starting in 1988. This suggests that if electricity demand increases by 2.2% per year, as forecast by the NERC, the industry's chronic excess capacity will begin to ease in a few years. However, it also suggests that capital spending by the electric utility sector will not increase substantially throughout the remainder of this decade.

Increasing Competition from On-site Generation Lowers Need for Additional Capacity

The potential threat of on-site generation as an alternative source of electricity for industrial customers may forestall large increases in capital spending by the electric utility sector. An increasing market share of on-site generated electrical power and continued consumer pressure is reshaping the structure of the electric utility industry. The emergence of this new industry structure will force a re-evaluation of competitive positions and capital investment needs.

Cost over-runs and continuing difficulties in placing new plants in their rate base has persuaded some utilities to consider putting smaller, less costly increments of short lead-time capacity into service. This coupled with the apparent halt of new nuclear plant construction, will have adverse affects on capital spending in the near future.

As in the manufacturing sector, capital spending in the near term will be centered around efficiency gains rather than capacity expansion. The new wave of spending will be aimed at plant up-grading and life extension, which may prove to be easier to place in the utilities' rate base than additions to capacity. It will also help shape the new industry structure.

Walter Arvin
February 10, 1987

CAPITAL APPROPRIATIONS AND EXPENDITURES OF INVESTOR-OWNED GAS AND ELECTRIC UTILITIES

Quarterly Totals in Millions of Dollars

	I-84	II-84	III-84	IV-85	I-85	II-85	III-85	IV-85	I-86r	II-86r	III-86p
					—SEASONALLY ADJUSTED—						
TOTAL UTILITIES											
Opening backlog	64,281	58,318	55,421	53,814	50,667	51,192	55,991	51,069	50,860	52,615	45,290
Appropriations	5,464	7,839	9,863	11,554	9,439	15,213	5,110	8,708	9,068	5,094	5,044
Canceled	2,545	1,720	2,258	5,364	-77	1,102	999	536	-116	4,304	-2,767
Capital expenditure	8,882	9,016	9,212	9,337	8,990	9,312	9,034	8,381	7,429	8,115	7,839
Closing backlog	58,318	55,421	53,814	50,667	51,192	55,991	51,069	50,860	52,615	45,290	45,262
ELECTRIC UTILITIES											
Opening backlog	61,736	56,023	52,764	51,315	48,231	48,333	53,101	48,425	48,070	49,339	42,710
Appropriations	4,239	6,283	8,566	10,178	8,065	13,580	3,376	7,084	7,543	3,982	3,828
Canceled	2,055	1,621	2,071	5,248	231	852	479	267	142	3,809	-2,810
Capital expenditure	7,897	7,921	7,944	8,014	7,732	7,960	7,573	7,172	6,132	6,801	6,579
Closing backlog	56,023	52,764	51,315	48,231	48,333	53,101	48,425	48,070	49,339	42,710	42,769
GAS UTILITIES											
Opening backlog	2,545	2,295	2,657	2,499	2,436	2,859	2,890	2,644	2,790	3,277	2,580
Appropriations	1,225	1,556	1,297	1,376	1,374	1,633	1,734	1,624	1,526	1,113	1,216
Canceled	490	99	187	116	-308	250	520	269	-258	495	43
Capital expenditure	985	1,095	1,268	1,323	1,258	1,352	1,461	1,209	1,297	1,314	1,260
Closing backlog	2,295	2,657	2,499	2,436	2,859	2,890	2,644	2,790	3,277	2,580	2,494
					—NOT SEASONALLY ADJUSTED—						
TOTAL UTILITIES											
Opening backlog	64,281	63,031	57,718	53,435	50,667	59,316	57,701	50,499	50,456	59,231	52,433
Appropriations	11,222	4,338	5,905	13,255	16,960	8,379	2,760	9,971	16,112	2,630	2,782
Canceled	4,587	422	683	6,195	460	541	595	964	119	1,315	-516
Capital expenditure	7,885	9,229	9,505	9,828	7,851	9,453	9,367	9,050	7,218	8,113	7,917
Closing backlog	63,031	57,718	53,435	50,667	59,316	57,701	50,499	50,456	59,231	52,433	47,814
ELECTRIC UTILITIES											
Opening backlog	61,736	58,741	53,945	50,569	48,231	54,371	53,694	47,819	48,070	54,032	48,499
Appropriations	8,192	3,778	5,333	11,963	13,746	7,814	2,042	8,503	12,515	2,252	2,278
Canceled	3,998	349	568	6,080	656	306	154	713	257	892	-536
Capital expenditure	7,189	8,225	8,141	8,221	6,950	8,185	7,763	7,539	6,296	6,893	6,496
Closing backlog	58,741	53,945	50,569	48,231	54,371	53,694	47,819	48,070	54,032	48,499	44,817
GAS UTILITIES											
Opening backlog	2,545	4,290	3,773	2,866	2,436	4,945	4,007	2,680	2,386	5,199	3,934
Appropriations	3,030	560	572	1,292	3,214	565	718	1,468	3,597	378	504
Canceled	589	73	115	115	-196	235	441	251	-138	423	20
Capital expenditure	696	1,004	1,364	1,607	901	1,268	1,604	1,511	922	1,220	1,421
Closing backlog	4,290	3,773	2,866	2,436	4,945	4,007	2,680	2,386	5,199	3,934	2,997

REVISIONS: Gas & total utilities data for 1986 I & II are revised.

p denotes preliminary data.

Estimates are for all investor-owned gas and electric utilities. The electric utility companies surveyed account for 98% of all investor-owned companies' plant investment and kilowatt-hour sales to ultimate customers in 1984; the gas utilities surveyed account for 50% of 1984 revenues of all investor-owned gas utilities.

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